UNITED
NATIONS

TD

United Nations Conference
on Trade and Development

Distr.
LIMITED

TD/B/WG.1/L.4
1 July 1993

Original: ENGLISH

Ad Hoc Working Group on Investment and Financial Flows; Non-debt-creating Finance for Development; New Mechanisms for Increasing Investment and Financial Flows
Second session
Geneva, 28 June 1993
Item 6 of the provisional agenda

DRAFT REPORT OF THE AD HOC WORKING GROUP ON INVESTMENT AND FINANCIAL FLOWS; NON-DEBT-CREATING FINANCE FOR DEVELOPMENT; NEW MECHANISMS FOR INCREASING INVESTMENT AND FINANCIAL FLOWS ON ITS SECOND SESSION

Held at the Palais des Nations, Geneva,
from 28 June to 2 July 1993

Rapporteur: Mr. R. Serrano (Mexico)

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INTRODUCTION

1. The second session of the Ad Hoc Working Group on Investment and Financial Flows was held at the Palais des Nations, Geneva, from 28 June to 2 July 1993.

Chapter I

CONSIDERATION OF GLOBAL TRENDS AND ISSUES, INCLUDING FOREIGN INVESTORS' MOTIVATIONS (Agenda item 2)

2. For its consideration of this item, the Ad Hoc Working Group had before it the following report by the UNCTAD secretariat:

"Foreign direct investment in developing countries: recent trends and policy issues" (TD/B/WG.1/7).

3. Contributions on foreign investors' motivations prepared by invited non-governmental experts and transmitted to the secretariat were circulated to the Ad Hoc Working Group in the miscellaneous documents series (TD/B/WG.1/Misc.2 and addenda) (see checklist of documents in annex ...).

4. The secretariat had also prepared a selected bibliography on foreign direct investment (UNCTAD/GID/DF/3).

Seminar on Foreign Investors' Motivations held during the session

5. During the second session a two-day seminar-type discussion took place (item 2 of the agenda) led by invited panellists (see annex ...) who made presentations and answered questions from participants on the various topics as follows:

Topic 1. Traditional and new factors affecting foreign direct investment in developing countries and economies in transition;

Topic 2. The globalization of investment: consequences for developing countries and economies in transition;

Topic 3. The impact of host country policies on foreign investment decisions: the investors' viewpoint;

Topic 4. FDI in the 1990s: sectoral patterns and geographical distribution.

6. Following the presentations and discussions, the Chairman summed up the conclusions to be drawn, as follows:

(a) On traditional and new factors:

(i) The substantial increase in FDI flows to developing countries and countries in transition which had occurred recently had been the result of a wide number of factors, including:

- A change of attitude in the host countries, which had welcomed FDI as a factor contributing to growth and efficiency;

- A change of attitude within companies themselves, which were working more closely with host countries on a partnership basis;
- An increase in global competition.

(ii) Several motives were involved in a firm's decision to invest abroad. These varied from firm to firm and sector to sector. They included the profit motive, safeguarding and gaining market share, economies of scale, and global competitive strategy.

(iii) Major factors influencing the location of FDI included the openness of the host economy, a fair and stable environment for FDI, domestic market potential, suitable export base, regional trading arrangements, availability of skilled labour, supportive infrastructure, and adequate domestic sourcing.

(iv) Among the traditional factors influencing FDI, it was felt that the low cost of unskilled labour was no longer a major determinant of FDI location.

(b) On globalization:

(i) Globalization had become a key feature of international economic relations, at the country level as well as at the firm level.

(ii) At the country level, almost all countries had opened their economies to the world. This was particularly true of the former centrally planned economies. At the firm level, globalization was an imperative for most firms, including small and medium-sized enterprises, under the pressure of global competition. Firms were applying the global concept to marketing, technology development, information system, brands, market strategy and sourcing.

(iii) Globalization was reinforced by the close linkages between FDI and trade, as well as through the increase in intra-firm trade and in trade within regional groupings.

(c) On host countries policies:

(i) Host country policies had an important bearing on the flow of FDI. Favourable policies ranged from general economic

policies leading to a stable macroeconomic framework and liberalization of domestic financial markets to specific FDI-related measures such as transparent and non-discriminatory legal and regulatory systems, and assured transfer of profits and capital repatriation.

(ii) Among the impediments to FDI were sectoral protection, ceilings on foreign ownership, licensing and approval procedures, performance requirements and restrictions on employment of foreign staff.

(iii) Competition through the use of subsidies and incentives, particularly fiscal incentives, could be costly to developing countries. Where these already existed, their sudden removal might produce negative effects; where they did not as yet exist, their introduction might not produce the desired results. To the extent possible, developing countries should seek to avoid competitive bidding, enhance exchanges of information and promote transparency in order to reduce unnecessary costs. Such actions would ultimately lead to greater harmonization of such measures among developing countries.

(d) On FDI in the 1990s:

(i) The upward trend in FDI flows to developing countries and economies in transition was expected to continue in the 1990s underpinned by competitive forces and further liberalization in these countries. However, constraints could emerge if economic uncertainty coupled with high unemployment in developed countries continued.

(ii) FDI should not be regarded as the only engine of growth in host countries. However, it could play a very useful role in the transfer of technology and the upgrading of skills in developing countries, thereby contributing to their overall development.

Chapter II

CONSIDERATION OF HOST AND HOME COUNTRY POLICIES AND MEASURES TO PROMOTE FOREIGN DIRECT INVESTMENT, INCLUDING EXPORT PROCESSING ZONES AND SPECIAL ECONOMIC ZONES
(Agenda item 3)

7. For its consideration of this item, the Ad Hoc Working Group had before it the following report by the UNCTAD secretariat:

"Export processing zones: role of foreign direct investment and developmental impact" (TD/B/WG.1/6).

8. The secretariat had also prepared a background study entitled:

"Export processing zones: selected country experiences" (UNCTAD/GID/DF/2).

9. In addition, the country case studies transmitted to the secretariat were circulated to the Working Group in the miscellaneous documents series (TD/B/WG.1/Misc.3 and addenda) (See checklist of documents in annex .. below).

[To be completed as appropriate]

Chapter III

ORGANIZATIONAL MATTERS

A. Opening of the session

10. The second session of the Ad Hoc Working Group was opened on 28 June 1993 by the Chairman, Mr. J.P. Huner.

B. Bureau of the Ad Hoc Working Group at its second session

11. At its 3rd (opening) plenary meeting on 28 June 1993, the Working Group elected Messrs. F.A. Gomes (Brazil) and R. Krzysków (Poland) as Vice-Chairmen, to replace Messrs. L. Amaral Lopez (Brazil) and J. Stypa (Poland) who were unable to attend the second session. Accordingly, the Bureau of the Ad Hoc Working Group at its second session was constituted as follows:

Chairman:	Mr. J.P. Huner (Netherlands)
Vice-Chairmen:	Mr. M.M. Rahman (Bangladesh)
	Mr. F.A. Gomes (Brazil)
	Mr. G. Blehy (Côte d'Ivoire)
	Mr. R. Krzysków (Poland)
	Mrs. E. Shelton (United States of America)
Rapporteur:	Mr. R. Serrano (Mexico)

C. Adoption of the agenda and organization of work (Agenda item 7)

12. At the same meeting, the Ad Hoc Working Group adopted the provisional agenda for the second session as approved by the Ad Hoc Working Group at its first session and circulated by the secretariat in TD/B/WG.1/5. The agenda for the second session reads as follows:

1. Adoption of the agenda and organization of work
2. Consideration of global trends and issues, including foreign investors' motivations
3. Consideration of host and home country policies and measures to promote foreign direct investment, including export processing zones and special economic zones
4. Provisional agenda for the third session of the Ad Hoc Working Group
5. Other business
6. Adoption of the report of the Working Group to the Board.

13. The Working Group also broadly endorsed the suggested organization of work set out in the annex to TD/B/WG.1/5, subject to clarifications of detail made by the Chairman.

D. Provisional agenda for the third session of the Working Group
(Agenda item 4)

[To be completed]

E. Adoption of the report of the Ad Hoc Working Group to the Board
(Agenda item 6)

[To be completed]

Annexes

Annex ...

LIST OF PANELLISTS

Topic 1. Traditional and new factors affecting foreign direct investment in developing countries and economies in transition

Panellists:

Mr. H. Oberhänsli
Assistant to the Chairman for Economic Affairs
Nestlé S.A.
Vevey, Switzerland

Mr. D. Hepburn
Unilever
London, United Kingdom

Mrs. G. Ietto-Gillies
Professor of Applied Economics
South Bank University
London, United Kingdom

Topic 2. The globalization of investment: consequences for developing countries and economies in transition

Panellists:

Mr. J. Charlton
Managing Director
Chase Manhattan Bank
New York, N.Y.
United States of America

Ms. D. Spar
Assistant Professor of Business Administration
Harvard University
Boston, Massachusetts
United States of America

Mr. P. Mountfield
Executive Secretary
Development Committee
Washington, D.C.
United States of America

Topic 3. The impact of host country policies on foreign investment decisions: the investors' viewpoint

Panellists:

Mr. H. Stordel
Economic Research Department
Crédit Suisse
Zurich, Switzerland

Mr. H. Oberhänsli
Assistant to the Chairman for Economic Affairs
Nestlé S.A.
Vevey, Switzerland

Mr. F. Fornasari
Director Trade and Investment Unit International Relations
FIAT s.p.a.
Turin, Italy

Mr. G. Kume
Chief Representative Japan Eximbank
Paris, France

Mr. J.L. Le Bideau
Principal Administrator
Directorate for Financial, Fiscal and Enterprises Affairs
Organisation for Economic Cooperation and Development
Paris, France

Topic 4. FDI in the 1990s: sectoral patterns and geographical distribution

Panellists: Mrs. G. Ietto-Gillies
Professor of Applied Economics
South Bank University
London, United Kingdom

Mr. G. Luciani
Deputy Director
International Analysis, ENI
Rome, Italy

Ms. D. Spar
Assistant Professor of Business Administration
Harvard University
Boston, Massachusetts
United States of America

Annex ...

CHECKLIST OF DOCUMENTS

[To be completed]

Annex ...

MEMBERSHIP AND ATTENDANCE

[To be completed]

Annex ...

PROVISIONAL AGENDA FOR THE THIRD SESSION
OF THE AD HOC WORKING GROUP

[To be completed as appropriate]